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The Logic of Pressure Groups and "Federalism"

Pierre SALMON

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Constructing a complete model of the relations between politicians, bureaucrats, interest groups, and voters is not an easy task. Consequently most economic models of government have to do away with some of these relations. One way to simplify matters is the so-called group theory of politics (or "pluralism") which assumes that the influence of interest groups dominates policy-making. In political science 1, where this line of thinking has been important for a long time, the theory is not very striking, since it is not always clear that an interest group is anything more than a number of individuals, or firms, who share a common concern, i.e. an interest category. Thus, the theory can be made as empty or innocuous as one wishes 2. In economics, the interest group theory of government is normally much stronger or bolder. The reason for this difference is that economists have been provided by Olson [1965] with a sharp distinction between interest categories (which he calls latent groups), and mobilized or organized groups. As a consequence of the rationality of free riding, many interest categories are not organized. At any point in time, (organized) interest groups represent only a subset of interest categories. Consequently, theories, such as the one formulated by Becker [1983], which explain policy-making exclusively by the interplay of groups within this subset (hence which concede no independent influence to voters, who are assumed to be "bought", or to politicians or bureaucrats, who are assumed to be "hired"), are strong theories indeed 3.

It is true that many economic theories of government do not ascribe such prominence to interest groups. Some models ignore them altogether, while others, such as the ones by Downs [1957], or Breton [1974], give them a modest role. However, all economic models, and most political science analyses, which mention interest groups share the common assumption that they are independent actors. They may or may not be successful in influencing policy-makers; in any case they do not themselves come

1. Introduction
under any influence.

The purpose of this paper is to explore the possibility and the consequences of an alternative interpretation. It is well-known that many organized groups or associations do not really undertake to influence policy-making, but this observation is irrelevant in the present context. The groups which are discussed here are those which are normally assumed to exert such influence, i.e. pressure groups or lobbies. Thus, the point which is at stake is whether pressure groups are as likely to be "hired" by politicians or bureaucrats as they are to "hire" them (to use Becker's words). As we shall see the view that they are "hired" is shared to some extent by a number of political scientists. However, in their case, the argument seems to have been inspired by observation of the relationship between interest groups and politicians or bureaucrats in a number of European countries, while for our part we shall try to found the argument on theoretical grounds. More precisely, while they systematize the situation they think they observe in continental Europe, by contrast with the one they see as prevailing in the United States, we shall start our reasoning from a theoretical puzzle, originating in the combination of Olson's mobilization problem and the objection raised by Stigler [1974] to the solution Olson and others have offered for it.

The "federal dimension", defined broadly as in Breton and Scott [1978], will prove helpful in two ways. First, it increases the workability of the hypothesis proposed here. Although no "unitary state" (in a sense that is the counterpart of their broad definition of federalism) exists in the real world, except perhaps for tiny states like Monaco or Granada, many economic models of government omit to take the "federal dimension" into account. If they also gloss over other complexities of government, such as the rivalry between bureaus, as analyzed for instance in Breton and Wintrobe [1982], the independence of pressure groups tends to become a natural (although, as we shall see, unexplained) assumption. Second, I think that it is a defect of some economic theories of government, such as the one proposed by Olson [1962], that they imply gloomy
long-term tendencies (conversely, it is an attractive feature of Becker's model that it
does not). It seems wiser to include in our models a balancing mechanism of some sort.
Although different from Olson's, the interpretation of pressure groups suggested in this
paper could also imply ultimately unchecked tendencies. "Federalism" is useful inasmuch
as it might provide the counterforce that is needed in some circumstances to obtain a
mechanism of that kind.

2. The Olson-Stigler puzzle.

The satisfaction, or even the mere expression of a common interest is a pure
Samuelsonian public good. No member of the interest category can be excluded from its
consumption. Consequently in large homogeneous categories (see below) rational
self-interested individuals or firms will free ride, that is shirk the costs of furthering
the common interest, except if they are induced to do otherwise by what Olson [1965] calls
selective incentives. Such incentives can be negative (e.g., coercion) or positive. I shall
concentrate on the latter, which Stigler [1974] nicely calls "individually appropriable
inducements". Mobilization of "large" homogeneous categories will depend on finding
selective incentives. Mobilization of "small" interest categories (including large
categories in which some members are "large") and of "intermediate" categories might
take place without selective incentives but will tend, according to Olson, to be
sub-optimal. Olson's analysis has given birth to an abundant literature. Three issues
deserve particular attention.

First, how do we know whether a category is "large"? To answer this question, I
suggest that we should start from the relation, formulated by Olson himself, between
competition and free riding. If we disregard anti-trust legislation, the difficulty of
collusion is an instance of the difficulty of mobilization; the rationality of free riding
entails the dominance of competition. Thus, the way we usually deal with competition
should guide us in handling the identification of large categories. On one hand, we have a theoretical construct, pure competition, the purpose of which is to treat the seller as a price-taker, and which is founded on the assumption that the number of firms is infinite. On the other hand, we have real world industries, say the Italian footwear industry. When we use the theory of competition to study a real world question, we affirm the antecedent (in the context of a hypothetical syllogism). We say: the Italian footwear industry is competitive. Italian shoemakers are price-takers, each of them faces an infinitely elastic demand curve. We do not wait until we find in the real world an industry with an infinity of small firms to assume that firms are price-takers. Nor do we argue that each shoemaker has some small influence on prices. In some contexts, we are even willing to assume that the steel industry is competitive, although we know that this assumption is not realistic.

Why should we not exactly proceed in the same way when we discuss free-riding in large groups? The theoretical definition of a large group should be that no member has any influence on outcomes, he is an "outcome-taker", the size of the group is infinite. To use another word coined by Stigler, there is no "cheap riding" in large groups, just plain free riding. Then we turn to the real world and apply the theory founded on this unrealistic assumption to existing "large" groups, provided no member is "much larger" than any other. A "large" group in this sense can involve a few dozens members, or sometimes less. This means that we decide to see many large groups in existence, in the same way as we decide to see many competitive situations in the product, factor, or political markets. However, Stigler is probably right when he argues that many trade associations are not homogeneous as far as the dimension of member-firms is concerned; they should not be treated as "large" groups in Olson's sense. But trade associations are only a subset of pressure groups. Essential in some contexts (e.g. for the explanation of tariffs), they are not as important in others, such as the one studied by Becker (1983). Leaving aside for the moment the particular case of firms, we shall assume consequently
that the large group situation is very common. In particular, "group federalism" will not be considered as a general solution to the mobilization problem; even the lower-level member-groups in a federation of groups are typically "large" according to the conception adopted here.

The second issue is: how are both the total cost of individually appropriable inducements and the cost of producing the collective good to be financed? Olson's solution is that in successful groups, the collective good is a by-product of inducements. The objection raised by Stigler [1974] to this solution is the following: "Why should the association be able to charge more than the cost of the services which are appropriable as private goods? If an association seeks to add a charge for collective goods, a rival association which undertook no collective action should undersell it" (p.360). One possible answer to this objection is the existence of barriers to entry. Stigler excludes this, but he considers only trade associations, and only in the context of the United States. If one thinks of other kinds of pressure groups, such as professional associations, and of other countries, barriers to entry can be found. However, they are generally the result of government policies or regulations, or (in the case of unions) of decisions taken by firms. As we shall see, it is precisely one of our main points that mobilization in large groups requires some form of support from outside. Another possible answer to Stigler is that pressure groups benefit from tax exemptions. Again, if tax exemptions are conceded to a particular category on the condition that it gets mobilized within an approved association, it is a form of external support for this association. If all non-profit-associations, or their members, benefit from exemptions, Stigler's objection remains valid: among associations, all of them tax-exempted, those which show no concern, or only nominal concern, for collective action would outcompete others.

Finally, the most popular solution to the problem of finance involves nonmaterial inducements. Among these, Olson himself mentions social, psychological, moral, and even erotic incentives. One may wish to interpret them, or some of them, within the
context of a relaxation of the rationality and/or self-interest assumptions. If we do not wish to do that, it must be noted that these nonmaterial inducements can provide a solution only if they are conditional by nature on participation in collective action, and not merely because it has been decided to offer them exclusively to those who participate in collective action. In other words, in order to solve the Olson-Stigler puzzle, they must have characteristics such that groups that do not engage in collective action must not be able to provide them at all, or to provide inducements of the same quality. In fact, this technical link between collective action and nonmaterial inducements is plausible in many circumstances (not restricted to revolutionary periods, in which it is of course even more likely). If I am not satisfied with this solution, adopted by many political scientists and a number of economists, it is not because it lacks plausibility. As an individual, I think that nonmaterial motivations, and perhaps even unselfish motivations (depending on the definition given to selfishness), are important. As an economist, however, I think that the tradition, or research strategy, which consists in introducing them as parsimoniously as we can as assumptions in our models, has proved generally fruitful in economics. The problem with these assumptions is not that they are unrealistic, but rather that they make the researcher's life too easy. In other words, their heuristic value is generally negative. They prevent us from thinking deeply enough about reality.

The third issue raised in the literature that followed Olson's analysis is leadership. Could the recognition that groups generally have leaders help in solving Olson's problem of mobilization in large groups? Many authors have thought so 7. However, although useful in depicting the mobilization process, and providing us with a way of presenting things that will prove helpful in the analysis below, existing models of leadership or of entrepreneurship do not solve the mobilization problem 8.

The theoretical difficulty we must overcome is that not enough resources are available for the mobilization of large groups that engage in collective action in a
competitive environment. The resources provided by members are just sufficient to finance the services that induce them to join the group. Many associations do not really bother about collective action. Their viability raises no problem as shown by the theory of clubs. For those which do bother, however, if we decide to define rationality and self-interest narrowly (as we should try to do), the conclusion seems inescapable. Insofar as they are successful, these groups necessarily receive some support or some resources from outside. Once we have decided that we have to look for mechanisms producing such support, many can be discovered. To undertake this exploration it will be convenient to start with a simple "model" of a large group with a leader.

3. A model of leadership.

Let us assume that all members of the group are small (in the sense that price-takers are small) and that their mobilization is necessary for furthering a common interest, i.e., producing a public good (the nature of which will be considered later). Mobilization is achieved and maintained by a "leader" (or a leadership firm), who works for money and is not a consumer of the public good. This leader is an entrepreneur as usually defined in economic theory. For the purpose of mobilizing the group, or keeping it mobilized, he provides members with private goods, i.e., individually appropriable inducements. Thus, his net outlay is constituted by the cost of providing the private goods, plus the cost of producing the public good, minus the contributions from members (it does not really matter who is actually or physically producing the public good). To this net outlay must be added the opportunity cost of the leader himself.

At this stage, the mobilization of the group and the production of the public good are possible, provided some "finance" from outside can be found. For this to occur, the leader must sell something to the outside world. In order to avoid an infinite regress, it must be a private good (or an excludable public good). There are several possibilities, as
we shall see later. For the time-being, let us assume this private good to be "influence". Although the leader cannot draw any net resources from the members, in spite of the utility he gives them through the production of the public good (because they free ride), this production provides him with an "influence" of some sort (to be considered later) over them, either in matters directly related to the public good, or in unrelated or more distant matters. By assumption, this influence has some value to the outside world. It can be sold. Figure 1 shows how a public good can be produced along these lines.

[Figure 1 about here]

The production of the public good is measured on OY'. It is a function (AL) of net outlay, measured on OX'. The total (net) cost of production of the public good, measured on OY, is a function (BN) of net outlay and the opportunity cost of the leader (or rather the part of this cost which is not included in the cost of private goods). The influence of the leader, measured on OX, is a function (OS) of the quantity of the public good that is produced. Travelling around the quadrants, we can derive curve CT, which indicates the total cost of influence, measured on OY. Total revenue from outside, also measured on OY, is a function of the quantity of influence that is sold on the market for influence. This function is depicted by line OV (drawn here as a straight line because our leader is assumed to be a price-taker on the "influence" market). Net profit is the vertical difference between curves OV and CT. OF is the level of "influence" that maximizes net profit. In the long run, entry will make sure that net profit is zero. Hence curves OV and CT will be tangent at a point that will determine optimal production.

The shapes and positions of the curves reflect usual or plausible assumptions. Anyhow, many large categories never get organized, or do not produce a collective good. It is sufficient that this model works in a number of cases. Of course, an implicit assumption in this model is that the provision of private goods to members gives no
FIGURE I

N

Y

total cost, total revenue

X' net outlay

"influence"

S

L

Y'

quantity of "collective good"
"influence" to leaders. However, this assumption seems to a large extent plausible: the owners or managers of "clubs", like the producers of all sorts of private goods, however efficient or successful they may be, do not normally enjoy "influence" in the sense intended here.

In the context of this paper, our "model" is simply illustrative. What we are interested in is a broader class of exchange situations between the leader and the outside world on the one hand, and the leader and members of the interest group on the other hand. Thus, instead of restricting our attention to the particulars of the exchange situation depicted above, we shall consider three broader issues. What services can be sold in general to the outside world, or more particularly to the "public sector"? How can this "public sector" pay for these services in a democracy? What is exactly the "public good" that is produced within the group?

4. The supply of services to the public sector.

When referring to influence, we do not suggest that the leader could change the preferences of members. As usual in economics, utility functions are assumed to be given. Hence, influence is somehow related to information in a broad sense. Conveying information to members of an interest category is not always easy for politicians and for bureaus. If they do or say something that is of value for individuals sharing a common interest, it may not be possible for them to ensure that this is fully perceived by a significant proportion of the category. Group organizations (represented in our simplified reasoning by leaders) are in general indispensable agents for the transmission of specialized information. However, the service provided for the public sector in this way is not a function of collective action but only of membership to the group. It could not explain curve AL in figure 1.

Now, leaders can do more than dispatch news. They can comment this news, approve or condemn policies, programmes, or declarations. They can go further and
actually advise members to vote for or to join a political party. For these less passive activities to have an effect, leaders must be trusted (at least to some extent). And trust will be positively related to their perceived performance in promoting the common interest of the group. Thus influence is a positive function of the production of the collective good, a relationship reflected by curve AL.

Although it could perhaps be treated separately, we can include in "influence" the power that a relatively trusted leader enjoys to define or to modify the characteristics of common interest, or of collective action, as perceived by members. He can emphasize one subgoal rather than another. He can induce the group to be concerned with longer-term or shorter-term perspectives than the ones it would be inclined to adopt spontaneously.

Another service that can be offered to the public sector is, once again, information, but this time offered by the group to politicians and bureaus. This widely acknowledged service produced by interest groups includes technical information as well as information about the preferences and perceptions of members of the group or of the interest category in general.

We do not have to elaborate on the services mentioned up to this point since they are so widely perceived. On the contrary, it should probably be stressed that collective action, or pressure, itself is often of considerable value to some actor in the public sector. This can occur either because the objectives of the group coincide with the goal pursued by a political party, a bureau, or a government, or because mobilization of the group, independently of its purpose, has some value for them. Many illustrations could be found. A bureau may need pressure from a group to persuade another bureau (e.g., the ministry of finance), or politicians, that a policy it favours should be adopted, or that a policy it does not like should be discarded. More broadly, it may welcome pressure addressed to itself as a proof that it is alive, important, fulfilling a worthy function within government, and thus that it deserves supplementary means. When in opposition, a political party will welcome expressions of discontent, or demonstrations, addressed to the government by particular groups, independently of the content of their demands. In
some cases (a bit suspect in democracies), even ruling parties may secretly support disruptive mobilization against themselves inasmuch as this may lead to more discipline or increased powers.

The plurality of governments implied by the "federal dimension" enlarges the market for these kinds of services offered by pressure groups. A junior government may see the mobilization of an interest category within its jurisdiction as a means to reinforce its bargaining position at a higher level. We shall consider examples of this later on. Sometimes, it is the other way round: pressure at the national level is invoked to pass legislation that constrains junior governments. These cases concern particular policy goals. However, like bureaus, governments fear to be generally ignored or bypassed. The existence of a rivalry between them thus implies that they will often consider the pressure that is addressed to them as a means to achieve better integration and standing in the overall organization of society.

This behaviour is particularly open when a new level of jurisdiction is created, or is provided with increased powers. In Europe, two levels have been instituted or made more significant in recent decades. One is the "regional level". As noted by Ursula Hicks, in several countries of Europe, large regions have received powers that were previously assigned to central governments, or to lower levels of jurisdiction such as counties, provinces or départements. Unfortunately, only casual observation can be invoked to confirm the interest displayed by the new regional authorities in inducing pressure groups to turn to them rather than to their traditional interlocutors at the higher or lower levels.

More reliable information is available with regard to the second level which has been created in recent years, the so-called "supranational level". Before we turn to the most obvious case, i.e. the European Communities, let us note that historical evidence should be sought and could probably be found on this matter. For instance, according to Sidjanski, in the nineteenth century, the Swiss federal government (Switzerland only became a federation in 1848) "founded its own interest groups on the federal level in
order to build its own links with the citizenry and bypass the old channels, which were jealously defended by the cantons. 11.

In the case of European integration, from the start the partisans of European unity and political scientists such as Haas (1948) relied upon pressure groups to provide the process with a major driving force. It was widely held that the Commission (or its predecessors) would find allies in the pressure groups. It would benefit by the influence exerted by groups within each country on their own politicians. This influence was expected to play in favour of further integration as a result of various "spillover" mechanisms, that is as an element in a dynamic process, seen as a productive succession of imbalances. It is not clear whether serious consideration was given to open alliances between the Commission and pressure groups within the member states. In any case, the national governments made sure that such alliances could not develop, and in fact few occurred. 12. It did not matter so much because transnational pressure groups were expected to become active directly in Brussels. This hope seems to have been shared by the national governments when the European institutions were created, since these institutions make substantial room for what Averyt (1977) calls the Eurogroups to form and to have a say in decision-making (the Commission is even required to deal with Eurogroups). Since then, it has been widely observed that the Commission has actually done its best for the development of "peak groups" of this kind, and for the direct channelling of demands to itself.

Of course, it is generally agreed that this policy has failed. Nor has the Swiss government, in spite of more genuine federal powers, enjoyed for a much longer time, achieved unmitigated success in inducing groups to bypass cantonal governments, so making itself the main focus of pressure. But these observations are secondary here. What is important is the interest revealed by overarching institutions in becoming the targets of pressure groups.

Other services offered by pressure groups can be mentioned. We shall not dwell on the delivery of services that are normally produced by governments, since they have
been analyzed at length in the "corporatism" literature, and are not specific to pressure
groups, and shall turn instead to a last category, constituted by what we shall call
"evasion services". These generally hidden services consist in helping individuals in the
public sector, as well as in helping bureaus, political parties, or junior governments, to
evade regulations, rules of conduct or monitoring. To take one single example, financing
political campaigns is generally assumed to be done by interest groups in exchange for
accepting collective demands, while it may be the case that in reality the money often
ultimately comes from government (on various levels), and only transits through
pressure groups, mainly as a means to evade the law. Now, the question raised by the last
point as well as by others is: admitting that pressure groups can provide politicians and
bureaucrats with a whole array of valuable services, how can these services be bought?

5. Payments to pressure groups.

The conventional view is that pressure groups are paid in the form of compliance.
In exchange for the various services they furnish, governments decide or implement
the policies that correspond to the common interests they fight for. It is not our
intention to deny the importance of this kind of exchange. But, as a consequence of free
riding, it cannot provide us with the financing mechanism that we decided we needed. It
cannot explain that organized large groups come into existence and manage to survive.
Other goods must be delivered to the groups. We shall be brief on the most common forms
of "finance" transferred to pressure groups by the public sector. Again, they are well
documented in the recent literature on "corporatism" (see for instance Berger [1981]). It
will be more interesting to concentrate on the role of "federalism" in these financing
mechanisms.

Of course, financing must be interpreted here as direct or indirect transfers of
resources, or concession of the means to acquire resources, of any kind. Thus it includes
subsidies, payments in kind, and the provision of selective incentives that are necessary
for members to join the group. Compulsion to join is an extreme case. More frequent, however, is the granting of a monopoly, or at least of barriers to entry, to approved groups (for the production of the private goods which serve as selective inducements). A form of support that is less documented, but may be significant, is the deferred promotion of group leaders or their collaborators to rewarding jobs or functions in the public sector (including parliament). Some authors, such as Schmitter [1981], systematize various forms of support within a general theory of "societal corporatism", or a theory of the "institutionalization of groups". However, their analysis is partly misleading inasmuch as it tends to suggest that the basic phenomenon they describe is both novel and limited to Europe and some other parts of the world, excluding the countries, such as the United States, in which "pluralism" is still dominant. In our opinion, public support of pressure groups is much more widespread than is assumed by this neo-corporatism literature, even if it is probably true that it is more open in some countries (cf. Salisbury [1975] or Sabel [1981]).

Taking into account the "federal dimension" is particularly helpful in perceiving the importance of this support. It has two kinds of implications. First, the mechanisms described above acquire incomparable legitimacy, and are consequently much easier to implement, when the public authority which provides resources can be seen itself as competing in a wider environment, especially if it can be seen as fighting for the welfare of its constituents. For instance, the collusion between farm groups, or other special interest categories, and national ministries that would be suspect to many people in a purely domestic context becomes perfectly acceptable in the perspective of negotiations in Brussels. Similarly, close and open alliances between local authorities and local pressure groups do not seem improper when observed in the context of nation-wide rivalry between jurisdictions for grants or other favourable policies. Of course, broadening the scope for collusion in this way can have effects in both directions. In the context of the traditional interpretation, it helps to explain why pressure groups, although they are assumed to transfer resources to politicians or
bureaucrats, are accepted as part of the democratic system. In our interpretation, it increases the plausibility of reverse flows of private goods, from public authorities to pressure groups. Taken together these two categories of flow mean that a significant proportion of the resources involved can very well only transit through pressure groups.

The second kind of implications of the "federal dimension" concerns political parties. In the context of models of "unitary" government, political parties are either in power or in the opposition. But they cannot be assumed to stay for extended periods of time in the latter, at least if these models make the usual self-interest assumptions. When local or junior governments are allowed for, the general viability of national political parties can be accounted for: all important parties are generally in power, either on the central level, or at least on some local or regional ones. In Europe in particular, they usually enjoy very stable local strongholds. This provides them with substantial resources. The result of this independence is that the nature of their relationship with the pressure groups that are close to them, the parentela phenomenon made famous by LaPalombara [1964], is not to be unproblematically interpreted as a one-way transfer of resources from the pressure groups to the parties.

The last point brings us to the question of the ultimate source of funds or resources that are channelled to the collective action of large groups. Net contribution by the "small members" of large groups is excluded under our assumptions. Public finance is most important, as suggested above. However, political action on the part of big firms is not hindered by free riding as is action by small members of interest categories. Either as individual agents, or through their membership in "small" or "intermediate" groups, they can transfer resources to governments, to political parties, or to pressure groups. "Bigness" is of course a relative concept: modest firms can be "large" on the local level. Thus, altogether, probably all kinds of firms contribute resources to the non-market sector, defined as including pressure groups. This means that, in aggregate terms, the ultimate source of the funds that are necessary for collective action in large interest
categories is a combination of taxpayers' and firms' money. This should not necessarily be interpreted as supporting a Marxist view of the state. In some countries, political parties are probably able to ensure that the major part of these funds is extracted from the taxpayers.

6. Further remarks on the public good produced in pressure groups.

The avowed purpose of pressure groups is to further the common interest of their members. This raises several questions. First, this common interest cannot be ascertained easily. Many policies that seem to enhance it may be illusory or detrimental. For instance, social advantages conceded to wage-earners, such as longer paid holidays, or greater security at work, are often paid for by the workers themselves in the form of lower increases in real wages, or an increased probability of lay-offs. We have seen that this lack of precision of the common interest offers particular opportunities to group leaders in the context of their relationship with politicians and bureaucrats.

Second, assuming that the common interest is not ambiguous, the point must be made that it does not exactly coincide with the public good produced in the group. It differs from it as a result of three effects. The first effect stems from the fact that a pressure group wants to influence matters. Hence, what counts is the impact its action makes, the difference it achieves. We are dealing with a theoretical variable that implies a comparison with what would have happened if the collective action had not taken place, that is with a variable which involves counterfactual propositions. No direct observation can be conclusive (as shown by the long-standing discussion on the contribution of unions to the increased welfare of workers). The second effect reflects the fact that groups do not always purport to influence matters. They may pursue more modest objectives such as pressure for its own sake or expression. At least, even if they were pursuing the objective of influencing policy-making, it is something that they actually managed to fight for it, even if they did not win. In other words, a group that
has had no impact has not necessarily failed in producing a public good that is valuable to its members. The two variables which we have just identified, i.e. impact and expression or pressure, concern the group as a whole. Although difficult to measure, they are in a sense objective. But there is a third variable. In the model outlined above, the influence the leader exercises is related to his personal performance as it is perceived by the members of the group.

This leads us to consideration of the time dimension. Influence is a form of capital stock. It accumulates as a result of investment, and it depreciates with the passing of time. Its value is to be explained in terms of future flows. In given circumstances, there is probably a time path of influence that is optimal for the leader. For instance, it is unlikely that performance concentrated in one period would be optimal (for the leader), except if the leader contemplates leaving the group, or transforming it into a "club" (in the theoretical sense of this word), that is providing only private services to members.

Obviously these characteristics of their position have implications when assessing the most likely behaviour of leaders. More important still, they offer politicians and bureaucrats interesting strategic opportunities. To a large extent, these actors can control the variables that are essential for the welfare of leaders. Thus they can reward or punish them by defining policies and relations in such a way that leaders will or will not be perceived by members of their groups as performing well. They can concede favours that are purely apparent because they are compensated by the use of more discrete instruments (e.g. monetary policy), or they can bypass the leaders and concede real favours to the interest category in such a way that collective action will appear pointless for a long time. These opportunities allow for some forms of support for leaders which cannot provide resources that are usable for mobilization under our assumptions, but which contribute in making the groups and the leaders dependent. Could be added, along this line, the opportunities offered to politicians and bureaucrats by the existence of rivalry among leaders within a group, or of rivalry between organized groups within an interest category. Thus a new object of exchange has to be considered between group
leaders and various decision-makers in the public sector. In this particular market, sham battles, play-acting, or window-dressing will constitute a substantial part of the exchanged goods.

7. Implications.

The foregoing analysis does not lead to a clear picture of the general relationship between pressure groups, politicians, and bureaucrats. It does not imply that pressure groups have no influence on policy-making, but that their influence is not to be considered as an exogeneous variable, or even a semi-exogeneous variable, determined in a separable part of the overall politico-economic model. It is generally determined, along with other variables, in a rather complicated system, and is in any case very difficult to ascertain. In this perspective, policy-making itself is the result of a complex and opaque set of relations within a sort of "oligarchy", constituted by leaders of various organizations, such as pressure groups, political parties, bureaus, private firms, constrained and influenced from the outside. What are the conflicts and the alliances within the "oligarchy", who are the real winners and losers, whether there is stalemate or change are questions that cannot confidently be answered from outside. Given this assumed state of affairs, what problems arise for the ordinary citizen and for the model-builder?

Citizens will probably acquire a practical understanding of the system of relations that prevails in their country. For instance, they will know whether the best thing to do, for a particular purpose, is to approach or join a union, a political party, or both. However, the fact that they have learnt to find their way around the system does not mean that they can measure its aggregate impact on their welfare, that they are satisfied with it, or that they can contribute to its improvement. From their point of view it is particularly annoying that they cannot fully trust their representatives within unions or other pressure groups.
For the model-builder, to these difficulties must be added the diversity of patterns from one country to another. Depending upon traditions, bureaucracies will be strong in some countries and weak in others. The independence and authority of the executive branch of government will be very variable. Electoral systems will change matters completely. For instance, the combination of fully proportional representation, parliamentary democracy, and a weak bureaucracy will probably imply parentela relations between political parties and pressure groups that will make them hardly distinguishable. Thus one can have some doubts as to the possibility of obtaining in this area the simple and general models that economists seek, and one can fear that many existing models that give prominence to interest groups are not really widely applicable outside North America (if they are applicable at all).

Now, in economics as in most scientific disciplines, there is a respectable tradition that when a question cannot be answered, one should try to bypass it, that is, to ask another question. I suggest that we try this strategy here. To see more precisely the nature of the problem we face, let us assume that the relations between leaders of pressure groups, politicians, and bureaucrats, are perfectly obscure for the ordinary citizen, and that nothing that members of the elites can say is to be believed with perfect confidence. The "plurality of governments" dimension will be very important under these assumptions. On the whole, studies in the field of public choice assume implicitly the existence of one unitary jurisdiction, closed to any kind of relations with the outside world. In this context, under our assumptions, there is no independent means for citizens to assess policy outcomes. Thus, whether the political system is democratic or not does not matter a great deal, although in democracies it might be the case that a number of independent institutions mitigate the ignorance of citizens.

When we allow for a number of jurisdictions, either within a "federal state", or in the form of independent nations, even under our assumption of complete opacity, things change substantially. Let us formulate another strong assumption: perfect information on outcomes in other jurisdictions at the same level. Now citizens are provided with a
means of judging whether the performance of their opaque "oligarchy" is relatively
good or bad, or, more importantly, whether it is relatively improving or worsening. This
applies to overall performance, but also to the assessment of performance in the
particular areas of policy-making given citizens are more particularly concerned with
(e.g. pensions or environment).

At this stage of the argument we must consider two factors. The first one is the
responsiveness of the political system to possible discontent on the part of citizens. The
second factor is the possibility and the cost of emigration. In totalitarian states, the
political system will not respond and citizens will not be allowed to emigrate. Thus,
assuming perfect information on outcomes abroad, individuals can become very
dissatisfied, but they can but resign themselves or hope that a revolution will occur. In
the case of democracies, let us assume first that emigration is very costly. The important
point becomes then whether political leaders can be easily rewarded or sanctioned
according to their performance as seen by citizens. If they can, given perfect
information on foreign outcomes data, the nature of the relations within the
"oligarchy", and their opacity become largely irrelevant. If the performance of the
"oligarchy" is comparatively good, its internal arrangements will be tolerated, or even
approved by citizens. If it proves non-performing in relative terms, political change
will ensure that the policy output is made more satisfactory or that the internal
arrangements are reformed. Admittedly, in many contemporary democracies, political
competition is bounded, there are barriers to entry in the political market, real political
change seldom occurs (proportional representation is often responsible for this
unresponsiveness to widespread discontent, as in Italy or Israel). However, it is
sufficient to some extent that the probability of occurrence of political sanction is a
function of the level of the disparity in performance. In the long run, in Western
Europe, the absence of persistent disparities in growth rates, over long periods of time, is
more striking than the existence of disparities in levels (that is why neither the German
or the Italian "miracle", nor the British "disease" should be taken too seriously).
If for a moment we relax somewhat our strong assumptions of complete opacity and of perfect information, and allow, on the “constitutional” level, a say to citizens on arrangements within the “oligarchy”, we can predict that citizens will be more prone to accept the intimacy of relations within the “oligarchy” and their opacity, when they know that they can rely upon perfect information on outcomes abroad. Conversely, if they know they will not be well informed, opacity will produce discontent on their part. Thus, we can expect small jurisdictions, exposed to maximum information from outside, to engage more openly in “corporatism” than large jurisdictions, into which information from outside flows more slowly. The role played by political responsiveness in this “constitutional”, or meta-political, process should of course be spelled out in a more rigorous analysis.

If we allow for easy emigration, the possibility of a perverse Hirschman exit mechanism arises. If citizens are dissatisfied with the performance of the oligarchy, while political change appears difficult, a number of them may emigrate. In itself, contrarily to widespread opinion, this emigration will not necessarily induce political change or improvement in policy-making. There is plenty of historical and even contemporary evidence in favour of the absence of the usual presumption that governments would respond to a loss of population by changing their policies or would suffer political sanction. Consequently, in the case of easy emigration, disparities in performance can increase without check for long periods of time. This is a real possibility in the case of independent countries as well as in the context of “federalism” within one country. But it is in the latter that it is the most likely to become significant.

8. Decentralization.

As we noted before, the absolute size of a jurisdiction may be important. Olson [1982] argues that the mobilization of groups will be easier in small jurisdictions for two reasons. The first is that interest categories have fewer members. The second is that
there will be more social homogeneity or identity of preferences in each category. We can doubt the general validity of both arguments, except in the case of very tiny jurisdictions. But it does not matter too much, for the information factor we have stressed will tend to produce the same result, that is a higher density of pressure groups in smaller jurisdictions, provided of course that the local or junior governments have real powers or influence. Information considerations intervene in two ways. First, the opacity of a given state of oligarchic arrangements may be lower than it is in larger jurisdictions. Second, information on the outcomes of policies implemented outside the jurisdiction will generally be easier to come by. As a result of the two considerations, the tolerance of corporatism or more uninhibited corporatism will be higher, especially if, as already argued, the junior government is seen as competing for resources in a wider environment. This increased tolerance will facilitate public financing of pressure groups.

However, emigration will tend to be less costly. Since there is no reason for political change to be easier in small jurisdictions than in large ones, while information on what happens outside is normally better, exit will tend to become more significant. The result will be that small jurisdictions, well integrated in a high information-- and high individual mobility-- area, have more scope for prolonged disparities in performance, or for unchecked increasing disparity, than large ones that are not so well integrated. In itself, this will mean that regional decline, or urban decay within a metropolitan area, will be more frequently observed over long periods of time than the decline of nations as a whole.

This does not imply that "federalism" or decentralization, defined as the assignment of more powers to junior or local governments, would reduce the relative performance of the country as a whole, or would reduce on average the welfare of citizens. Again, let us take extreme cases. In each case, we assume that the country is rather isolated in terms of information, and that political change is difficult (without being impossible). In the first case, let us assume also that almost all powers are assigned to the central
government. If emigration is costly, comparative performance may stabilize at a low level, as we saw. If emigration is easy, the disparity in performance can increase unchecked. A case in point may be Spain until fairly recently, a country well-known for its intellectual, i.e., informational isolation from the rest of Europe, and for the high propensity of her population to emigrate. In the second case, let us assume a high level of decentralization. For any level of emigration costs (out of the country as a whole), we can expect performance to be somewhat higher than in the case of centralization. Even in an imperfectly democratic environment, a local "oligarchy" will at least sometimes fear political backlashes if its policy output is non-performing compared to neighbouring local governments. This will lead to some emulation. Although we have assumed that the country is informationally isolated, this feature is more relevant on the level of citizens than it is on the level of leaders. Thus local governments, in this emulation context, may seek information from outside the country and initiate new policies. In the case of high mobility of individuals within the country, some local governments will not play the game of emulation, or will be losers in this game (we argued above that the presumption that governments generally compete in terms of population is unwarranted). However, the local jurisdictions which tend to have under-average performance will lose population, and will ultimately have decreasing importance in the country as a whole, while the above-average performance jurisdictions will become more important. Thus, altogether, performance will be higher than it would be (ceteris paribus) in the case of centralization.

The mechanism outlined above could be applied at the sectorial level. The analytical advantage of studying decentralization in a precise sector of the public service is that it does not involve the problem raised by individual mobility to the same degree as it does in the case of overall decentralization. For instance, it is probable that the parts of the French school system which have deteriorated so visibly in recent decades would not have done so to the same extent if their management had been assigned to regional authorities instead of a central "oligarchy" of bureaucrats and
union leaders within a ministry in Paris. Comparisons between regions on this issue would have been fairly easy, while parents would not have generally responded to observed discrepancies by moving from one region to another, but would rather have exerted pressure on local politicians. Information from abroad would probably have been sought by regional governments and some experiments would have been undertaken.

Of course, our assumptions are too restrictive to warrant confidence in conclusions of any kind, except perhaps in the extreme cases that we have focussed on. If we take into account the various spill-overs and costs identified by Breton and Scott [1978], decentralization will have to be limited. Powers will be assigned to a variety of levels. Concurrent authority will be pervasive. This will make the task of assessing performances more difficult for citizens. In the context of our discussion in terms of opacity, interjurisdictional information, responsiveness of the political system, and migrations, it seems tentatively attractive to consider as the most efficient the solution in which as much power as possible is assigned to junior or local governments while they are asked to coordinate their policies within a central institution that is provided with little independent power. This kind of arrangement will imply strong oligarchies on the local level and weak ones on the central level. More precisely, "peak" associations, national political parties, central bureaucracy will not gather strength, while their local or regional counterparts will try to achieve their goals, inasmuch as they imply policy-making on the national level, through inter-governmental negotiation. This pattern seems to be illustrated both by Switzerland, a very successful country indeed, and by the European Community. In both cases, as we have noted, "junior governments" have remained the focus of the main efforts of pressure groups and political parties. Of course, there are some costs, not considered in this paper, with these kinds of arrangements. Consequently, it might be more appropriate to study them in the limits of sectors of public policy rather than in the context of overall assignments as we did. However, it should be noted that Swiss cantons are generally competent except when
powers are specifically assigned to the federation. Thus real or constitutional federalism ("community states", in Albert Breton's terminology), as opposed to constitutional centralization ("unitary" and "federal" states), may be important in practice in deciding what will be the real extent of decentralization and on which level "oligarchies" will tend to become active.

The possibility of collusion between "local" oligarchies should be considered. In the context of Europe, experience shows that collusion is difficult and time-consuming. Admittedly, there is some evidence that collusion has been significant in the case of the Common Agricultural Policy (see Averyt [1977], Senior Nello [1983]). However, collusion should not be exaggerated. The temptation for economists is to reason backwards or indirectly: since the policy seems unreasonable, it must be the result of political or bureaucratic distortions. However, it is not obvious that the European agricultural policy has been on the whole unreasonable. Consequently, it may be the outcome of normal intergovernmental negotiations. Collusion involving pressure groups must then be limited to what is established by direct observation. In the case of the European Monetary System, the fear that the system would allow collusion between governments or central banks and would thus result in a higher average level of inflation has not been confirmed. Admittedly, some projects, especially those supported by unions (paradoxically in the name of the fight against unemployment) seem particularly illustrative of an attempt to collude on a higher level in order to maintain arrangements endangered on the national level. But they have not be accepted for the time being.


There are few convincing tests in the field of interest groups or pressure groups. The problem is not principally that data on interest groups are scarce. It is rather that these data are by nature very ambiguous. What we are interested in is the influence of associations and not their numbers or their size, especially since most of them are not
pressure groups but mere "clubs", providing their members with private services. In a recent paper, Murrell [1984] thinks that his empirical relations determine "interest group activity". This is rather dubious, since the explained variable is only the number of associations. But "interest group activity" is not the variable we are interested in anyway. Averyt [1977] observes that in Brussels, there is "intense activity" of Eurogroups, but that they have "little influence". Most observers seem to agree on this.

Thus tests should probably concern relations deduced from models in which groups play a role, but which do not explicitly include groups among the measured variables, either explained or explanatory. This is for instance the way the theory presented by Olson [1982] is tested (see Mueller [1983]). Our "model" might suggest a test of this kind. The relevant variables would be income, income growth, migrations, a proxy for easiness of information on outcomes abroad, a proxy for decentralization (such as the one used by Murrell for instance), a proxy for political responsiveness (perhaps the electoral system).

Support for several arguments formulated above can be found in the existing literature. For instance, reading the empirical relations presented by Schmitter [1981], we can see that what he calls "high corporatism" happens in the small countries of Europe and not in the large ones. This supports the idea that avowed corporatism is accepted provided information, allowing comparisons of outcomes, can be obtained at low cost, as is the case in small open economies. Another example is the fact that most of the cases of decline analysed by Olson [1982] involve easy emigration. His theory is more convincing when applied to the decline of regions or of city-states than when applied to whole nations. To a large extent, the evidence he uses seems thus to confirm the existence of the perverse exit mechanism we have borrowed from Hirschman in the foregoing analysis.

Of course studies in depth of particular areas of policy-making, or of single associations can be useful, although most economists do not consider them as real tests. In the case of our "model", attention should be concentrated on the flows of goods and
services exchanged between a pressure group and the outside world as well as within the group. Since, in general, existing studies have taken for granted the conventional view of pressure groups, they have not sought information about the flows which appear crucial in our reasoning. Thus it is possible that the relevant information could be found if it was sought. However, it must be noted that our leader is an entrepreneur. Consequently, real flows do not have to be matched in a single period of time. The entrepreneur and his interlocutors can invest, borrow, repay. Since property rights are not well enforced in the particular exchange relations these actors are engaged in, trust is a necessary, and complicating, factor. Finally, uncertainty is probably higher in this business than in most others. Thus equilibrium involves expected returns and risk remunerations. In other words, many leaders do not succeed but those who do may enjoy high returns. The complexity of the model to be used makes observability, and even more refutability, difficult indeed. As is often the case with others models or theories in this field, the temptation would be therefore to use monographic investigations as a means to illustrate and "verify" the main propositions rather than to submit them to a genuine confrontation with observation.


The arguments that have been formulated here apparently favour decentralization. Inasmuch as coordination is nevertheless indispensable, these arguments seem to be more favourable to "community" states than to "federal" ones. However, we should remain aware that many other considerations are relevant besides those that were mentioned.

In the case of Europe, the foregoing analysis suggests that current arrangements may be more appropriate than we usually think. There is no "corporatism" on the European level to speak of. Information within Europe flows swiftly. Migrations remain modest. Decision-making in Brussels is mostly an inter-governmental process. Although,
again, other considerations may be essential in the desire to "build" Europe. The case for more European integration should probably be more careful than it usually is about the kind of problems we have discussed here.

In the perspective adopted in this paper, and perhaps in general, a world government would be disastrous. In the long run "oligarchies" on lower levels would probably manage to collude on the world level. Powers at the centre would gradually increase. Opacity would become dangerous, not only for efficiency, but for individual freedom. The "oligarchies" we have been concerned with are rather benign, because information and emigration make them so. In a closed world society, they would become much more like the ones usually feared. The main normative implication of the paper is probably this strong anti-federalist (in the sense given to federalism by the world federalist movement) conclusion. Conversely, as long as societies remain open to external influences, the extent of the decentralization they engage in is not extremely important. In other words, to take the example of France, openness of the French economy and society is more important than its level of decentralization. The latter would acquire real importance only if openness were to be reduced substantially. In the case of smaller countries, in which openness is even more pronounced, and perhaps irreversible, the degree of decentralization may become almost indifferent (who cares whether Monaco is a unitary state or a federation?). This relationship between internal arrangements and the external situation seems to me to have been to a large extent overlooked by the existing economic literature on federalism.
Footnotes

* Some of the ideas presented here, notably in the first part of the text, were already formulated in an unpublished paper, "Exchange models of leadership", European University Institute, 1979. This paper was discussed on various occasions at the EUI in 1979 and 1980, as well as at the Basle meeting of the European Section of the Public Choice Society, also in 1979. I have done my best to take into account some of the comments made at the time or later on this earlier paper by Léonce Bekemans, Albert Breton, Bernard Cazes, Albert Hirschman, Charles Kindleberger, Jacques Le Cacheux, Mancur Olson, Bernard Nonat, Philippe Schmitter, Andrew Shonfield, Gordon Tullock, and Matthias Wolf. A first complete version of the present paper was prepared for the Seminar on Selected Problems of Federal, Unitary and Community States, Villa Colombella, Perugia, 4-6 September 1984. I thank the participants at the Seminar for helpful comments on this version, in particular Laura Castellucci, Gianluigi Galeotti and Stanley Winer. I thank also Michel Petit and Susan Senior Nello for further comments.

1. See for instance Greenstone [1976], Moe [1980], and the literature they cite.

2. This is noted by Moe [1980], p. 152.

3. For references to the economic version of "group theory", see chapter 1 of McCormick and Tollison [1981]; these authors do not seem to consider the implications of free riding as seriously as I do, and as, to a lesser extent, authors such as Landes and Posner [1975] or Becker [1983] do; they interpret Stigler [1974] in such a way that the problem can be bypassed. In the text, I refer to Becker's model and main line of argument, and not to the (modest) qualifications he introduces in his comments.

4. To my knowledge, no political scientist is perfectly unambiguous on this matter, the most straightforward being probably Offe [1981]; see in particular LaPalombara [1964], Salisbury [1973], Moe [1980], and the whole Berger [1981] volume. The last three reveal a serious awareness of Olson's logic of free riding. However, their excessive readiness to relax assumptions prevents them from systematizing their observation along an unorthodox main line.

5. "Homogeneous" in the whole paper refers to the relative size of members and not to their preferences (except for a short discussion in footnote 16).

6. See Stigler [1974] and Moe [1980]. As noted in footnote 3, Stigler is considered by some economists as having solved the free rider problem, a view that I do not share, except perhaps as far as firms are concerned.

7. See in particular Wagner [1966], Breton and Breton [1969], Salisbury [1969], Frohlich, Oppenheimer and Young [1971], Breton [1974], and Moe [1980]; in the context of international relations, see for instance Kindleberger [1978].

8. Particularly helpful are Salisbury [1969] and Moe [1980]; for a realistic assessment of this leadership literature prior to 1971, see Olson [1971].

9. A recent discussion in the French parliament of a bill on the financing of private schools may be a case in point: in the justification of this (aborted) project, mass demonstrations in favour of private schools were invoked by the (leftist) government as a reason for imposing on leftist local authorities part of the burden of financing schools, which most of them had obstinately refused before.

10. In the chapter she contributed to the Mueller [1983] volume.


13. Pizzorno [1981] sees the problem (pp. 252-254), but does not envisage its local government solution, again an instance of the heuristic harm done by relaxed assumptions (see footnote 4).


16. Cf. Olson [1982], pp.32-34; on the first point, I argued in the first part of the paper that even medium-sized groups should be considered as "large" in Olson's sense; on the second point let us just note that there is first a difficult problem of definition and measurement of "more homogeneous preferences", and second a real possibility, if we reason in terms of inequality in income or wealth, of cases such that some regions are more unequal than the whole country.

17. On local corporatism, see Hemes and Selvik [1981].

18. Many qualifications should of course be taken into account, for instance regarding the control of quality in the context of national degree awarding, or the supervision of teachers in the context of tenure. For some comments on decentralization in French higher education (where migrations cannot be disregarded), see Salmon [1982].


20. See especially table 10.1 in Schmitter [1981]. It is strange that openness is not seriously discussed in this paper or in the rest of the Berger [1981] volume.

21. Of course similar long run normative implications are produced by the theory of Olson [1982].
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